

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Kalamazoo Cemetery Pertetual Care	County Kalamazoo
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

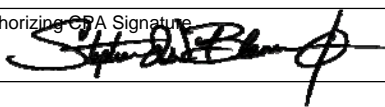
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**CITY OF KALAMAZOO, MICHIGAN**

**PERPETUAL CARE FUND**

**Financial Statements**

**For the Years Ended  
December 31, 2006 and 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF KALAMAZOO, MICHIGAN  
PERPETUAL CARE FUND**

**TABLE OF CONTENTS**

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	<b><u>PAGE</u></b>
<b>Independent Auditors' Report.....</b>	<b>1</b>
 <b>Financial Statements for the Years Ended December 31, 2006 and 2005</b>	
Balance Sheets.....	2
Statements of Revenue, Expenditures and Changes in Fund Balance .....	3
Notes to Financial Statements .....	4-6
 <b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....</b>	 <b>7-8</b>

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**REHMANN ROBSON**

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

June 28, 2007

Members of the Employee Retirement System  
Investment Committee  
City Commission of Kalamazoo  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the ***Perpetual Care Fund of the City of Kalamazoo, Michigan***, (a permanent fund) as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Perpetual Care Fund and do not purport to and do not present fairly the financial position of the City of Kalamazoo, Michigan, as of December 31, 2006 and 2005, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Perpetual Care Fund of the City of Kalamazoo, Michigan as of December 31, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the Perpetual Care Fund of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis for the Perpetual Care Fund as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the financial statements.

# **FINANCIAL STATEMENTS**

**CITY OF KALAMAZOO, MICHIGAN**  
**Perpetual Care Fund**  
**Balance Sheets**  
**December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 180,336	\$ 25,905
Investments	4,366,705	4,006,995
Accounts receivable	<u>270</u>	<u>1,035</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,547,311</u></u>	<u><u>\$ 4,033,935</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Contract payable	\$ 4,491	\$ 4,543
Due to other funds of the City	<u>197,000</u>	<u>45,000</u>
Total liabilities	<u>201,491</u>	<u>49,543</u>
<b>Fund balance</b>		
Reserved for cemetery care	1,735,160	1,735,160
Unreserved, undesignated	<u>2,610,660</u>	<u>2,249,232</u>
Total fund balance	<u>4,345,820</u>	<u>3,984,392</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 4,547,311</u></u>	<u><u>\$ 4,033,935</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF KALAMAZOO, MICHIGAN**  
**Perpetual Care Fund**  
**Statements of Revenue, Expenditures and**  
**Changes in Fund Balance**  
**For the Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Charges for services	\$ 36,099	\$ 26,949
Interest and dividends	183,513	181,400
Net appreciation in the fair value of investments	<u>540,650</u>	<u>252,769</u>
Total revenue	760,262	461,118
<b>Expenditures</b>		
Professional fees	<u>21,585</u>	<u>11,276</u>
Revenue over expenditures	738,677	449,842
<b>Other financing uses</b>		
Transfers to City of Kalamazoo Cemetery Fund	<u>(377,249)</u>	<u>(389,787)</u>
Net changes in fund balance	361,428	60,055
Fund balance, beginning of year	<u>3,984,392</u>	<u>3,924,337</u>
<b>Fund balance, end of year</b>	<u><u>\$ 4,345,820</u></u>	<u><u>\$ 3,984,392</u></u>

The accompanying notes are an integral part of these financial statements.

# **CITY OF KALAMAZOO, MICHIGAN**

## **Perpetual Care Fund**

### **Notes To Financial Statements**

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#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Perpetual Care Fund of the City of Kalamazoo, Michigan (the “City”) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

**Organization** - The Perpetual Care Fund, a permanent trust fund of the City, was established to hold and manage funds for the purpose of financing the annual maintenance of the City’s cemeteries, in perpetuity. Management of the fund’s assets has been delegated to the Employee Retirement System Investment Committee by the City Commission. The Investment Committee currently contracts with Dimensional Fund Advisors, Inc. (DFA) to provide investment advisory services for the Perpetual Care Fund assets.

**Reporting Entity** - The City, for financial purposes, includes all of the funds relevant to the operations of the City of Kalamazoo. However, the financial statements presented herein include only the financial position and changes in financial position of the Perpetual Care Fund and, accordingly, are not intended to present the financial position and changes in financial position of the City of Kalamazoo in conformity with generally accepted accounting principles.

**Fund Accounting** - The Perpetual Care Fund is a permanent trust fund which is used to account for assets held by the City for the care of the City cemetery. The fund utilizes the modified accrual basis of accounting.

**Cash and Cash Equivalents** - All highly liquid investments, with an original maturity of three months or less, are considered to be cash equivalents.

**Investments** – Investments are separately held by the Perpetual Care Fund and consist of mutual funds which are stated at fair value.



**CITY OF KALAMAZOO, MICHIGAN**  
**Perpetual Care Fund**

**Notes To Financial Statements**

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**2. CASH AND INVESTMENTS**

The Fund's deposits and investments are included on the statements of net assets under the following classifications:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Cash and cash equivalents	\$ 180,336	\$ 25,905
Investments	<u>4,366,705</u>	<u>4,006,995</u>
<b>Total</b>	<u><b>\$ 4,547,041</b></u>	<u><b>\$ 4,032,900</b></u>

The above amounts are classified in the following categories:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 180,336	\$ 25,905
Investment in equity mutual funds	<u>4,366,705</u>	<u>4,006,995</u>
<b>Total</b>	<u><b>\$ 4,547,041</b></u>	<u><b>\$ 4,032,900</b></u>

*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Fund's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$180,336 and \$25,905 at December 31, 2006 and 2005, respectively. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the Fund's deposit covered by FDIC is not determinable.

The Fund's banking and investment policy does not specifically address this risk, although the Fund believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Fund evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# **CITY OF KALAMAZOO, MICHIGAN**

## **Perpetual Care Fund**

### **Notes To Financial Statements**

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*Custodial Credit Risk - Investments.* As of December 31, 2006 and 2005, the System's investments were comprised solely of equity mutual funds. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery *vs.* payment. As of December 31, 2006 and 2005, none of the Fund's investments were exposed to risk since the securities are held in the Fund's name by the counterparty.

Investments, managed by Dimensional Fund Advisors, Inc. (DFA), consist of a variety of equity mutual funds. The investments are designed to comply with the requirements and restrictions of Act 177 of the Public Acts of 1937, as amended, dealing with the investment of trust funds and the investment philosophy of the fund's investment committee.

The Act provides for the investment of funds in, but not limited to, equity securities and various interest-bearing instruments.

### **3. RISK MANAGEMENT**

The Perpetual Care Fund is exposed to various risks of loss related to torts, errors and omissions. The Perpetual Care Fund participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Perpetual Care Fund that would require a liability to be recorded in the financial statements.

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**REHMANN ROBSON**

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A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 28, 2007

Members of the Employee Retirement System  
Investment Committee  
City Commission of Kalamazoo  
Kalamazoo, Michigan

We have audited the financial statements of the *Perpetual Care Fund of the City of Kalamazoo, Michigan*, (a permanent fund), as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Perpetual Care Fund of the City of Kalamazoo, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Investment Committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.